

KANE COUNTY SCHOOL DISTRICT

FINANCIAL REPORT

JUNE 30, 2005

**KANE COUNTY SCHOOL DISTRICT
FINANCIAL REPORT
JUNE 30, 2005**

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Management's Discussion and Analysis

As the management of the Kane School District (District), we offer readers of the District's financial statements this narrative discussion, overview, and analysis of the financial activities of the District for the fiscal year ending June 30, 2005.

Financial Highlights

The District categorizes its revenues in three groups by source, federal, state, and local. Federal revenues include categorical funding for special programs, grants, and other specifically designated purposes. State revenues include categorical funding as described above, enrollment based funding using weighted pupil units (WPU), and other funding which is distributed by various formula designed to assure an equitable allocation among all districts in the state. Local revenues are derived from property tax, tuitions, other fees and charges, and interest income.

During January of 2005 the District completed construction on a four room addition to Valley Elementary School in Orderville. The original contract was signed on June 15, 2004. The cost of this construction per the contract was to be \$557,774. After completion of all construction, actual total construction cost incurred by the District was \$595,827. The actual cost exceeded the original contract by \$38,053. This additional cost was due to several change orders approved by the District and also included the cost to furnish all four rooms, which cost was not included in the original contract amount. Funding for construction came from capital funds received by the District from local property taxes. No loans or bonding were required for this project.

For fiscal years ending June 30, 2003 and 2004, the District received awards from the Utah State Office of Education for excellence achieved in the reporting of 2003 and 2004 annual financial information to the Utah State Office of Education. The District anticipates that it will again receive this award for the fiscal year ending June 30, 2005.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the assets and liabilities of the District, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the District changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related*

cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: government funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Maintenance and Operation Fund, Debt Service Fund and the Capital Project Fund, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13-17 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs.

The District uses an agency fund to account for resources held for student activities and groups. The basic fiduciary fund financial statement can be found on page 18 of this report.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-30 of this report.

Other information. The combining statements referred to in connection with nonmajor governmental funds and internal service funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 31-36 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve as a useful indicator of a government's financial position over time. The District assets exceeded liabilities by \$13,231,556 at the close of the most recent fiscal year.

KANE SCHOOL DISTRICT'S Net Assets

	Governmental activities		Total Change 2004-2005
	2004	2005	
Current and other assets	4,348,392	3,934,574	(413,818)
Capital assets	18,108,491	18,283,690	175,199
Total assets	22,456,883	22,218,264	(238,619)
Other liabilities	1,728,611	1,660,153	(68,458)
Long-term liabilities outstanding	7,827,470	7,326,555	(500,915)
Total liabilities	9,556,081	8,986,708	(569,373)
Net assets:			
Invested in capital assets, net of related debt	11,163,595	11,948,691	785,096
Restricted	2,223,340	1,776,477	(446,863)
Unrestricted	(486,134)	(493,611)	(7,477)
Total net assets	12,900,802	13,231,556	330,754

The largest portion of the District's net assets (78%) reflects its investment in capital assets (e.g. land, buildings and improvements), less any related debt (general obligation bonds payable and obligations under capital leases less unspent bond proceeds) used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (13%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$493,611) may be used to meet the District's ongoing obligations to students, employees, and creditors. The unrestricted net asset amount has been designated for the following purposes:

- **Post employment benefit obligation.** The District offers eligible employees a retirement stipend and insurance benefit. The insurance benefit is to provide health and accident insurance at a couple rate for a period of up to five years. Once a retiree is eligible for

Medicare part A, then the insurance benefit expires. The School District funds this benefit on a pay-as-you-go basis. The School District has a potential liability for post-employment benefits calculated at the net present value of the estimated liability. The amount recorded in the financial statements for 2005 is \$1,440,530.

KANE SCHOOL DISTRICT'S Changes in Net Assets

	Governmental activities		Total Change 2004-2005
	2004	2005	
Revenues:			
Program revenues:			
Charges for services	595,434	820,057	224,623
Operating grants and contributions	3,818,011	4,081,381	263,370
Capital grants and contributions	78,532	16,000	(62,532)
General revenues:			
Property taxes	3,638,627	3,534,503	(104,124)
Federal and state aid not restricted to specific purposes	3,345,623	3,160,397	(185,226)
Earnings on investments	55,152	91,250	36,098
Miscellaneous	-	(2,081)	(2,081)
Total revenues	11,531,379	11,701,507	170,128
Expenses:			
Instructional services	5,782,116	6,031,297	(249,181)
Supporting services:			
Students	475,991	539,587	(63,596)
Instructional staff	292,394	212,833	79,561
General administration	423,295	348,029	75,266
School administration	552,521	554,883	(2,362)
Business	139,801	189,075	(149,274)
Operation and maintenance of facilities	1,188,008	1,318,214	(130,206)
Transportation	529,596	528,962	634
Central	95,252	126,577	(31,325)
Other	6,985	11,861	(4,876)
School lunch services	398,418	406,322	(7,904)
Interest on long-term liabilities	255,560	242,778	12,782
Facilities acquisition/construction	596,219	860,334	264,115
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Bond issuance costs	323,178	-	-
Total expenses	11,059,334	11,370,752	(311,418)
Excess (deficiency) of revenues over (under) expenditures	472,045	330,755	(141,290)
Increase (decrease) in net assets	472,045	330,755	(141,290)
Net assets – beginning	12,428,757	12,900,802	775,786
Net assets – ending	12,900,802	13,231,557	330,755

KANE SCHOOL DISTRICT'S Revenue and Expense per Pupil

	<u>2004</u>	<u>2005</u>	<u>Total change 2004-2005</u>
Revenue per pupil:			
Local			
State			
Federal			
Total revenue per pupil	9,593	9,767	174
Expense per pupil	8,946	10,019	(1,073)
Student population	1,200	1,169	(31)

The total net assets of the District increased by \$330,755 during the fiscal year. Cash and cash equivalents increased by \$195,120 and investment in capital assets, net of debt increased \$785,096. The remaining amount is from changes in accounts receivable, capital projects and long-term debt. The following discussion and analysis on governmental activities focuses on this increase:

Governmental activities. The key elements of the increase of the District's net assets for the year ended June 30, 2005 are as follows:

Total assets	22,218,263
Capital assets – net	18,283,690
Other assets	3,934,573
Total liabilities	8,986,708
Current liabilities	1,000,257
Noncurrent liabilities	7,986,451
Net assets	13,231,556
Net assets-Invested	
in capital assets	11,948,691
Net assets-restricted	1,776,477
Net assets-unrestricted	(493,611)
Program revenues:	
Charges for services	820,057
Operating Grants	4,081,381
Capital Grants	16,000
General revenues:	
Property taxes	3,534,503
Unrestricted grants	3,160,397
Investment earnings & other	89,169
Total expenses	11,370,752
Change in net assets	330,755

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. The unreserved fund balance is divided between designated balances and undesignated balances. The District has designated portions of the unreserved fund balance to restrict resources for certain government-wide liabilities and post employment obligations that are not recognized in the governmental funds. State law requires that undesignated balances in the general fund be appropriated in the following year's budget. Fund balances of capital projects and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion.

Maintenance and Operation fund. The maintenance and operation fund is the chief operating fund of the District. At the end of the 2005 fiscal year, the unreserved and undesignated fund balance was \$1,150,936. The unreserved and undesignated fund balance increased by \$139,611 during the current fiscal year. Key factors in this growth are as follows:

- Increased local property tax collections, and one-time funds received from the State of Utah to help compensate Districts for declining enrollment.

Expenditures for general District purposes totaled \$8,886,557 which is an increase of 5.09% over the previous year. This increase was due to such things as increased expenditures for employee health insurance and increased expenditures in programs such as special education, K-3 reading program, transportation, increased utility costs and other factors. Instructional services represent 65.73% of general fund expenditures.

General fund salaries totaled \$5,028,505 while the associated fringe benefits of retirement, social security, unemployment, worker's compensation, and health and accident insurance added \$2,245,138 which is 82% of general fund expenditures.

The capital projects fund has a total balance of \$689,258 all of which is restricted for acquisition of capital assets and purchase of supplies and related expenditures. The fund balance decreased by \$327,102 during the current fiscal year due to increased capital expenditures.

The debt service fund has a total fund balance of \$933,046 all of which is reserved for the payment of debt service on general obligation bonds. The fund balance decreased by \$121,267 during the year primarily due to the fact that the District reduced the property tax debt service levy.

The school lunch special revenue fund balance of \$24,623 is within the amount allowed by state guidelines and is restricted to the school lunch program.

The Kane Schools Foundation for Students received contributions of \$18,399 during the year to assist various school programs.

General Fund Budgetary Highlights

The difference between the original budget and the final amended budget was \$430,248 or 4.7% of total general fund budgeted expenditures. These differences may be summarized as follows:

- \$118,694 or 2% increase in instructional services

- \$311,554 or 10% increase in supporting services-operation and maintenance of facilities

During the year the final budgeted revenues exceeded the original budgetary estimates by \$762,499 or 8% of total general fund budgeted revenues. These differences may be summarized as follows:

- \$478,829 or 33% increase in property tax revenue
- \$237,971 or 4% increase in intergovernmental revenue
- \$16,085 or 23% decrease in revenue from services provided
- \$61,172 or 300% increase in investment earnings
- \$612 or 0.09% increase in revenue from grants, contributions and donations

Kane District ended the current fiscal year, with a (\$87,783) (0.97% of actual revenue) negative budget to actual variance in total general fund revenues, and a \$289,866 (3.3% of actual expenditures) positive budget to actual variance in total general fund expenditures. These variances are immaterial in amount.

Capital Asset and Debt Administration

Capital Assets. The capital projects fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the District. The District began various remodeling projects throughout fiscal year 2005 at a projected cost of \$1,474,888. Actual capital expenditures on projects completed during the current fiscal year were \$1,520,083.

The District operates schools in seven locations with administrative and bus maintenance facilities located in Kanab. These buildings total more than 370,000 square feet and are spread across Kane County.

Additional information on the District's capital assets can be found in Notes 1 and 4 to the basic financial statements.

Capital assets at June 30, 2004 and 2005 are outlined below:

KANE SCHOOL DISTRICT'S Capital Assets

	Governmental activities		Total
	2004	2005	Change
			2004-2005
Land	1,354,937	1,354,937	-
Buildings and improvements	15,817,352	15,944,282	126,930
Construction in progress	10,000	63,184	53,184
Furniture and equipment	926,201	921,287	(4,914)
Total capital assets	18,108,490	18,283,690	175,200

Debt Administration.

The general obligation bonded debt of the District is limited by state law to 4% of the fair market value of the total taxable property in the District. The legal debt limit at June 30, 2005 is \$24,960,755. General obligation debt at June 30, 2005 is \$6,335,000, (see table below) resulting in a legal debt margin of \$18,625,755.

KANE SCHOOL DISTRICT'S Outstanding Debt

	Governmental activities		Total Change
	2004	2005	2004-2005
Beginning Balance	6,975,000	6,845,000	(130,000)
Additions	4,665,000	-	(4,665,000)
Retirements	(4,795,000)	(510,000)	4,285,000
Ending Balance	6,845,000	6,335,000	(510,000)

Changing Enrollment within the District

The components of changing enrollment are migration and the kindergarten-to-grade-12 (K-12) differential. The K-12 differential is the variance in the number of kindergarten students entering and the number of grade 12 students leaving the District in a given year.

Enrollment in the District has been consistently declining since the 1997-1998 school year, from a high of 1,490 to the present level of 1,169 at the end of the current fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Kane School District's finances for all those with an interest in such matters. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Business Administrator, Kane School District, 746 South, 175 East, Kanab, Utah 84741.



INDEPENDENT AUDITORS' REPORT

To the Board of Education
Kane County School District
Kanab, Utah 84741

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kane County School District, Utah (the "District"), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Kane County School District as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the Maintenance and Operation Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary combining and nonmajor fund statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the same auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 5, 2005, on our consideration of Kane County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Wiggins & Co., PC

Brigham City, Utah

August 5, 2005

KANE COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Component Unit
ASSETS		
Cash and cash equivalents	\$ 3,244,932	\$ 21,003
Receivables (net of allowance for uncollectibles):		
Taxes	293,376	-
Accounts	1,500	-
Due from other government units	320,541	-
Inventory	11,218	-
Restricted cash and cash equivalents	51,176	-
Deferred charges	11,831	-
Capital assets (net of accumulated depreciation):		
Land	1,354,937	-
Buildings	15,009,021	-
Improvements other than buildings	935,261	-
Equipment	434,436	-
Vehicles	486,851	-
Construction in progress	63,184	-
 Total Assets	 <u>22,218,264</u>	 <u>21,003</u>
LIABILITIES		
Accounts payable	522,488	-
Accrued liabilities	468,602	-
Bond interest payable	9,167	-
Deferred revenue	-	-
Noncurrent liabilities - due within one year	659,896	-
Noncurrent liabilities - due in more than one year	7,326,555	-
 Total Liabilities	 <u>8,986,708</u>	 <u>-</u>
NET ASSETS		
Investment in capital assets, net of debt	11,948,691	-
Restricted for:		
Debt service	933,046	-
Other purposes	154,172	18,221
Capital projects	689,259	-
Unrestricted	(493,611)	2,782
 Total Net Assets	 <u><u>\$ 13,231,556</u></u>	 <u><u>\$ 21,003</u></u>

The notes to the financial statements are an integral part of this statement.

KANE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Component Unit
<u>FUNCTIONS/PROGRAMS</u>						
<u>PRIMARY GOVERNMENT</u>						
Governmental activities:						
Instruction	\$ 6,031,297	\$ 212,447	\$ 3,030,997	\$ -	\$ (2,787,853)	\$ -
Support services:						
Students	539,587	264,481	34,782	-	(240,324)	-
Instructional staff	212,833	-	35,502	-	(177,331)	-
General administration	348,029	-	165,245	-	(182,784)	-
School administration	554,883	-	65,833	-	(489,050)	-
Business	189,075	-	24,301	-	(164,774)	-
Operations/maintenance of plant	1,318,214	-	99,009	-	(1,219,205)	-
Student transportation	528,962	-	353,903	-	(175,059)	-
Central services	126,577	-	17,806	-	(108,771)	-
Other	11,861	-	-	-	(11,861)	-
School food services	406,322	119,500	254,003	-	(32,819)	-
Facilities acquisition/construction	860,334	223,629	-	16,000	(620,705)	-
Interest on long-term debt	242,778	-	-	-	(242,778)	-
Total primary government	<u>\$ 11,370,752</u>	<u>\$ 820,057</u>	<u>\$ 4,081,381</u>	<u>\$ 16,000</u>	<u>(6,453,314)</u>	<u>-</u>
<u>Component Unit:</u>						
Kane School District Foundation	\$ 7,098	\$ -	\$ 18,399	\$ -		11,301
General revenues						
Property taxes					3,534,503	-
Grants and contributions not restricted to specific programs					3,160,397	-
Unrestricted investment earnings					91,250	-
Loss on sale of capital assets					(2,081)	-
Total general revenues and transfers					<u>6,784,069</u>	<u>-</u>
Change in net assets before extraordinary item					330,755	11,301
Extraordinary item - loss on bond refunding					-	-
Change in net assets					<u>330,755</u>	<u>11,301</u>
Net assets - beginning					<u>12,900,802</u>	<u>9,702</u>
Net assets - ending					<u>\$ 13,231,557</u>	<u>\$ 21,003</u>

The notes to the financial statements are an integral part of this statement.

**KANE COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	Maintenance and Operation Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,552,468	\$ 131,251	\$ 1,420,237	\$ 140,976	\$ 3,244,932
Investments	-	-	-	-	-
Receivables (net of uncollectibles):					
Accounts	1,500	-	-	-	1,500
Taxes	163,927	51,795	77,654	-	293,376
Due from other governments	308,499	-	-	12,042	320,541
Due from other funds	-	750,000	-	-	750,000
Restricted cash and cash equivalents	51,176	-	-	-	51,176
Inventory	-	-	-	11,218	11,218
Total assets	<u>\$ 2,077,570</u>	<u>\$ 933,046</u>	<u>\$ 1,497,891</u>	<u>\$ 164,236</u>	<u>\$ 4,672,743</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 462,926	\$ -	\$ 58,633	\$ 929	\$ 522,488
Accrued payroll liabilities	463,708	-	-	4,894	468,602
Due to other funds	-	-	750,000	-	750,000
Liabilities payable from restricted assets	-	-	-	-	-
Total liabilities	<u>926,634</u>	<u>-</u>	<u>808,633</u>	<u>5,823</u>	<u>1,741,090</u>
Fund balances					
Reserved for inventory	-	-	-	11,218	11,218
Reserved for debt service	-	933,046	-	-	933,046
Reserved for capital improvements	-	-	689,258	-	689,258
Unreserved					
Undesignated	1,150,936	-	-	-	1,150,936
Undesignated, reported in nonmajor:					
Special revenue funds	-	-	-	147,195	147,195
Total fund balances	<u>1,150,936</u>	<u>933,046</u>	<u>689,258</u>	<u>158,413</u>	<u>2,931,653</u>
Total liabilities and fund balances	<u>\$ 2,077,570</u>	<u>\$ 933,046</u>	<u>\$ 1,497,891</u>	<u>\$ 164,236</u>	<u>\$ 4,672,743</u>

The notes to the financial statements are an integral part of this statement.

KANE COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS TO THE STATEMENT OF
NET ASSETS
JUNE 30, 2005

Total fund balances-governmental funds \$ 2,931,653

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. These assets consist of:

Land	1,354,937	
Buildings	24,818,692	
Improvements other than buildings	1,316,925	
Equipment	825,476	
Vehicles	1,532,211	
Construction in progress	63,184	
Accumulated depreciation	<u>(11,627,735)</u>	
Total capital assets		18,283,690

Bond issue costs and bond premiums/discounts are reported as expenditures in the governmental funds. The cost is \$13,145 and the accumulated amortization is \$1,314.	11,831
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Some liabilities are not due and payable in the current period and therefore not reported in the funds. Those liabilities consist of:

Bonds payable	(6,335,000)	
Post employment benefits payable	(1,440,530)	
Compensated absences	(210,921)	
Accrued interest on bonds and leases	<u>(9,167)</u>	
Total liabilities		<u>(7,995,618)</u>

Total net assets-governmental funds	<u><u>\$ 13,231,556</u></u>
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The notes to the financial statements are an integral part of this statement.

KANE COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Maintenance and Operation Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 1,989,399	\$ 630,561	\$ 914,543	\$ -	\$ 3,534,503
Intergovernmental	6,396,310	-	-	396,160	6,792,470
Charges for services	4,865	-	239,629	126,569	371,063
Investment earnings	52,362	79	38,809	-	91,250
Grants, contributions and donations	628,232	-	-	-	628,232
Miscellaneous	-	-	-	-	-
Total revenues	<u>9,071,168</u>	<u>630,640</u>	<u>1,192,981</u>	<u>522,729</u>	<u>11,417,518</u>
EXPENDITURES					
Current:					
Instruction	5,841,173	-	128,782	151,242	6,121,197
Support services:					
Students	262,735	-	-	12,371	275,106
Instructional staff	276,017	-	-	-	276,017
General administration	385,619	-	-	-	385,619
School administration	511,839	-	-	-	511,839
Business	188,932	-	-	-	188,932
Operations/maintenance of plant	769,769	-	430,682	-	1,200,451
Student transportation	512,035	-	-	-	512,035
Central services	126,577	-	-	-	126,577
Other	11,861	-	-	-	11,861
School food services	-	-	-	390,236	390,236
Facilities acquisition/construction	-	-	860,296	39	860,335
Debt service:					
Principal	-	510,000	-	-	510,000
Interest and fiscal charges	-	240,907	100,323	-	341,230
Bond issuance costs	-	1,000	-	-	1,000
Total expenditures	<u>8,886,557</u>	<u>751,907</u>	<u>1,520,083</u>	<u>553,888</u>	<u>11,712,435</u>
Excess (deficiency) of revenues over (under) expenditures	<u>184,611</u>	<u>(121,267)</u>	<u>(327,102)</u>	<u>(31,159)</u>	<u>(294,917)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	45,000	45,000
Transfers out	(45,000)	-	-	-	(45,000)
Proceeds from bond refunding	-	-	-	-	-
Payments to refunding escrow	-	-	-	-	-
Sale of capital assets	-	-	-	-	-
Total other financing sources and uses	<u>(45,000)</u>	<u>-</u>	<u>-</u>	<u>45,000</u>	<u>-</u>
Net change in fund balances	<u>139,611</u>	<u>(121,267)</u>	<u>(327,102)</u>	<u>13,841</u>	<u>(294,917)</u>
Fund balances - beginning	1,011,325	1,054,313	1,016,360	144,572	3,226,570
Fund balances - ending	<u>\$ 1,150,936</u>	<u>\$ 933,046</u>	<u>\$ 689,258</u>	<u>\$ 158,413</u>	<u>\$ 2,931,653</u>

The notes to the financial statements are an integral part of this statement.

KANE COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds

\$ (294,917)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

177,280

Governmental funds expense capital assets as they are acquired. In the statement of activities, gain or loss is recognized as capital assets are disposed.

(2,081)

In the statement of activities, commodities received are recognized as revenue and commodities used are recognized as expense. The amount received and used during 2005 was \$21,588.

-

Accrued interest on long-term debt reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds. This is the current year change in the liability, reported as a decrease in interest expense in the statement of activities.

871

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

608,583

The liability for compensated absences is not recorded in the governmental funds, but is reported in the statement of net assets. This is the current year change in the liability, reported as expense in the

(7,963)

The liability for post employment benefits is not recorded in the governmental funds, but is reported in the statement of net assets. This is the current year change in the liability, reported as expense in the statement of activities.

(151,018)

Change in net assets of governmental activities

\$ 330,755

The notes to the financial statements are an integral part of this statement.

KANE COUNTY SCHOOL DISTRICT
MAINTENANCE AND OPERATION FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
Property taxes	\$ 1,423,358	\$ 1,902,187	\$ 1,989,399	\$ 87,212
Intergovernmental	6,255,637	6,493,608	6,396,310	(97,298)
Charges for services	21,000	4,915	4,865	(50)
Investment earnings	30,000	91,172	52,362	(38,810)
Grants, contributions and donations	666,457	667,069	628,232	(38,837)
Miscellaneous	-	-	-	-
Total revenues	<u>8,396,452</u>	<u>9,158,951</u>	<u>9,071,168</u>	<u>(87,783)</u>
EXPENDITURES				
Current:				
Instruction	5,913,424	6,032,118	5,841,173	190,945
Support services:				
Students	204,280	266,921	262,735	4,186
Instructional staff	152,402	303,776	276,017	27,759
General administration	378,946	380,446	385,619	(5,173)
School administration	544,164	544,165	511,839	32,326
Business	185,316	185,316	188,932	(3,616)
Operation/maintenance of plant	738,624	785,324	769,769	15,555
Student transportation	471,282	513,889	512,035	1,854
Central services	157,737	151,737	126,577	25,160
Other	-	12,731	11,861	870
Facilities acquisition/construction	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest and fiscal charges	-	-	-	-
Bond issuance costs	-	-	-	-
Total expenditures	<u>8,746,175</u>	<u>9,176,423</u>	<u>8,886,557</u>	<u>289,866</u>
Excess of revenues over expenditures	<u>(349,723)</u>	<u>(17,472)</u>	<u>184,611</u>	<u>202,083</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	(45,000)	(45,000)	-
Capital leases	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>(45,000)</u>	<u>(45,000)</u>	<u>-</u>
Net change in fund balances	<u>(349,723)</u>	<u>(62,472)</u>	<u>139,611</u>	<u>202,083</u>
Fund balances - beginning	<u>1,011,325</u>	<u>1,011,325</u>	<u>1,011,325</u>	<u>-</u>
Fund balances - ending	<u>\$ 661,602</u>	<u>\$ 948,853</u>	<u>\$ 1,150,936</u>	<u>\$ 202,083</u>

The notes to the financial statements are an integral part of this statement.

KANE COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2005

ASSETS

Cash and cash equivalents
Total assets

\$	86,596
\$	<u>86,596</u>

LIABILITIES

Funds held for others
Total liabilities

\$	86,596
\$	<u>86,596</u>

The notes to the financial statements are an integral part of this statement.

**KANE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Kane County School District is located in the south-central portion of the State of Utah. It was organized by State Statute and serves the citizens of Kane County. The School District provides educational and related services.

The financial statements of Kane County School District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

A. Reporting Entity

The accompanying financial statements include the School District, which is a political subdivision with corporate powers created under Utah State law, and all of its blended component units, collectively referred to as the financial reporting entity. As required by generally accepted accounting principles (GAAP), these financial statements present Kane County School District (referred to as the "primary government" for reporting purposes). Kane Schools Foundation for Students is a discrete component unit, although a legally separate entity, of Kane County School District.

Kane Schools Foundation for Students is a separate but affiliated, self-sustaining, not-for-profit organization. The Foundation was established to provide support for the Kane County School District, its faculty and students, and to promote, sponsor and carry out educational, scientific, charitable and related activities and objectives within the Kane County School District. It is governed by a board of directors made up of local individuals. The Foundation is considered to be a component unit of the District because the purpose of the Foundation is to exclusively, or almost exclusively, benefit the District by soliciting contributions and managing the funds. The Foundation does not have a separate audit performed.

B. Government-wide and Fund Financial Statements

Government-wide Financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties for goods or services.

Fund Financial Statements. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported a separate columns in the fund financial statements. The remaining governmental are combined into a single column and reported as other (nonmajor) funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Government-wide Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

KANE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The use of financial resources to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term debt are reported as a reduction of the related liability, rather than an expenditure in the government-wide financial statements.

Governmental Fund Financial Statements. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Measurable" means that amounts can be reasonably determined within the current period. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Property taxes are recorded when levied. Property taxes which have not been collected within 60 days, and therefore do not meet the "available" criterion, are reported as deferred revenue until collected. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Minimum school program revenues and other revenues from the Utah State Office of Education are considered "measurable" and recognized as revenue when available and remitted to the School District in time to be used to pay current obligations. Grant revenue is recognized when qualified expenditures are incurred and a contractual claim exists with the grantor agency. All other revenue items are considered to be measurable and available only when cash is received by the School District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions to this general rule include principal and interest on long-term debt as well as expenditures related to compensated absences, which are recognized when payment is due.

The School District reports the following major governmental funds:

Maintenance and Operation Fund - This fund accounts for all activities not accounted for by other funds of the School District and is the principal fund. The main sources of revenue for this fund are property taxes and minimum school programs funded by the Utah State Office of Education.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources to be used for the acquisition, construction, or maintenance of major capital projects.

The School District's nonmajor governmental funds include other special revenue funds. The nonmajor special revenue funds account for specific revenue sources that are legally restricted to expenditures for specified purposes.

**KANE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund Financial Statements. The School District has only one type of fiduciary fund - Student Activities Agency Fund. Agency Funds are used to account for assets held by the School District as an agent for other governments, private organizations, or individuals. Agency Funds are accounted for using the accrual basis of accounting, but due to their custodial nature (assets equal liabilities) do not present results of operations or have a measurement focus.

D. Budgets

Budgets are legally adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for funds. All annual appropriations lapse at fiscal year end.

The School District operates within the budget requirements as specified by State law. The financial reports reflect the following budgetary standards.

1. By June 1, the Business Administrator prepares and files a tentative budget with the School Board. This tentative budget is reviewed and tentatively adopted by the School Board.
2. The tentative budget is made available for public inspection at least ten days prior to a public hearing on adoption of the final budget.
3. By resolution, the Board of Education legally adopts the final budget by June 15, after a public hearing has been held. A certified copy of the budget is kept available for public inspection.
4. Once adopted, the budget can be amended by subsequent action. Reductions in appropriations can be approved by the School Board, but increased appropriations in the governmental funds require a public hearing prior to amending the budget. Budgets may be increased provided that notice of such action is published seven days before the meeting. The budgetary information presented is the final amended budget.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. All appropriations lapse following the close of the budget year to the extent that they have not been expended.
7. As determined by State law, the level for which expenditures may not legally exceed appropriations is the total budget of a given department or fund.

E. Cash and Cash Equivalents and Temporary Investments

Unrestricted cash balances of all funds are combined to form a pool of cash and investments which is managed by the Business Administrator in accordance with the Utah Money Management Act. Income from the investment of pooled cash is allocated based upon each fund's portion of the pool. Restricted cash consists of that portion of pooled cash that is restricted for a specific use due to constraints imposed by external parties or enabling legislation, or is cash held in trust in compliance with bond covenant, terms and conditions. When both restricted and unrestricted sources are available for use, it is the School District's policy to use restricted resources first, then unrestricted resources as they are needed.

KANE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments are recorded at fair value based upon quoted market prices as of June 30, 2005, except where there is no material difference between cost and fair value. The difference between the purchase price and market price when material is recorded as interest income.

F. Interfund transactions

Interfund transactions represent transactions between different funds within the School District. In general, interfund activity has been eliminated from the government-wide financial statements in an effort to minimize the doubling-up of revenues and expenses resulting from such transactions.

G. Private-sector Standards of Accounting and Financial Reporting

The School District generally applies to the government-wide financial statements all *Financial Accounting Standards Board (FASB)* Statements and Interpretations, APB Opinions, and Accounting Research bulletins issued on or before November 30, 1989, to the extent that those standards do not conflict with or contradict guidance of the *Governmental Accounting Standards Board (GASB)*. The School District has elected not to follow private-sector guidance subsequent to that date.

H. Capital Assets

Capital assets include land, buildings, improvements other than buildings, leasehold improvements, furniture, fixtures and equipment, vehicles, infrastructure (roads, bridges, lighting and flood control) and construction in progress. These assets are reported in the government-wide financial statements in the relevant column on the Statement of Net Assets under governmental activities. Capital assets acquired by governmental funds are recorded as expenditures in the governmental fund financial statements. The capitalization threshold for personal property is defined to be assets with a useful life of at least one year and costing at least \$5,000; real property thresholds vary by type of asset, but are generally established at the same amount. Assets purchased or constructed are generally recorded at cost. If precise cost is not available (as was the case with certain infrastructure), the asset is recorded at estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation.

When constructing capital assets, interest expense incurred relating to governmental activities is not capitalized.

Depreciation of all exhaustible capital assets is charged to the various functional expenses in the government-wide Statement of Activities. Accumulated depreciation is reported on the government-wide Statements of Net Assets. Depreciation is provided over the estimated useful lives using the straight-line method. Estimated useful lives are as follows:

Buildings	10-40 years
Improvements	5-40 years
Equipment	5-20 years
Vehicles	5-10 years

**KANE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

It is the School District's policy to permit employees to accumulate earned but not used vacation benefits. An estimate of vacation pay is accrued when incurred in government-wide financial statements and proprietary funds and reported as a liability. A liability for these amounts is reported in the governmental funds only if benefits have matured as a result of employee resignations and retirements.

J. Long-term liabilities

In the government-wide financial statements, long-term debt is reported as a liability. Bond premiums and discounts, defeasance costs, (the difference between the carrying amount of the defeased debt and its reacquisition price in bond refundings), as well as issuance costs, are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. Net Assets/Fund Balances

The difference between assets and liabilities is "Net Assets" on the government-wide and "Fund Balance" on the governmental fund financial statements. Net assets are divided into invested in capital assets (net of related debt), restricted, and unrestricted. Net assets are reported as restricted when constraints are placed upon them by external parties or are imposed by constitutional provisions or enabling legislation.

In the governmental fund financial statements, fund balances are classified as reserved, unreserved designated, or unreserved undesignated. Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

L. Inventories

Inventories for the Special Revenue Fund (School Food Services Fund) are valued at average cost utilizing the weighted average method.

NOTE 2. PROPERTY TAX

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on June 15 and are due November 30. County property tax revenues are not recognized when levied because they are not expected to be collected within 60 days after the end of the current year. This policy meets the criteria of GASB.

**KANE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 3. RECEIVABLES

Receivables at June 30, 2005, consist of the following:

	<u>Taxes</u>	<u>Due from other Governments</u>	<u>Accounts</u>	<u>Total</u>
Governmental activities:				
Maintenance and Operation Fund	\$ 163,927	\$ 308,499	\$ 1,500	\$ 473,926
Debt Service Fund	51,795	-	-	51,795
Capital Projects Fund	77,654	-	-	77,654
Nonmajor Funds	-	12,042	-	12,042
Total receivables	<u>\$ 293,376</u>	<u>\$ 320,541</u>	<u>\$ 1,500</u>	<u>\$ 615,417</u>

No allowance for uncollectible accounts has been provided for because the School District believes that all accounts receivable are collectible.

NOTE 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,354,937	\$ -	\$ -	\$ 1,354,937
Construction in progress	10,000	63,184	(10,000)	63,184
Total capital assets not being depreciated	<u>1,364,937</u>	<u>63,184</u>	<u>(10,000)</u>	<u>1,418,121</u>
Capital assets being depreciated:				
Buildings	24,014,825	803,867	-	24,818,692
Improvements other than buildings	1,287,607	29,318	-	1,316,925
Furniture, machinery and equipment	808,673	55,376	(38,573)	825,476
Vehicles	1,433,372	98,839	-	1,532,211
Total capital assets being depreciated	<u>27,544,477</u>	<u>987,400</u>	<u>(38,573)</u>	<u>28,493,304</u>
Less accumulated depreciation				
Buildings	(9,163,591)	(646,080)	-	(9,809,671)
Improvements other than buildings	(321,489)	(60,175)	-	(381,664)
Furniture, machinery and equipment	(371,653)	(55,879)	36,492	(391,040)
Vehicles	(944,191)	(101,169)	-	(1,045,360)
Total accumulated depreciation	<u>(10,800,924)</u>	<u>(863,303)</u>	<u>36,492</u>	<u>(11,627,735)</u>
Total capital assets being depreciated, net	<u>16,743,553</u>	<u>124,097</u>	<u>(2,081)</u>	<u>16,865,569</u>
Governmental activity capital assets, net	<u>\$ 18,108,490</u>	<u>\$ 187,281</u>	<u>\$ (12,081)</u>	<u>\$ 18,283,690</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Instruction	\$ 736,055
Support services:	
Students	-
Instructional staff	-
General administration	15,620
School administration	-
Business	-
Operations/Maintenance of plant	23,459
Student transportation	88,169
Central services	-
Other	-
School food services	-
Facilities acquisition/construction	-
Total depreciation expense - governmental activities	<u>\$ 863,303</u>

**KANE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 5. RETIREMENT PLANS

Plan Description. Kane County School District contributes to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System and Public Safety Retirement System for employers with Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, and Public Safety Retirement System for employers with Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

Funding Policy. Plan members in the Local Governmental Contributory Retirement System are required to contribute 6.00% of their annual covered salary (5% paid by the employer for the employee) and Kane County School District is required to contribute 8.89%% of their annual covered salary. In the Local Governmental Noncontributory Retirement System, Kane County School District is required to contribute 13.38% of their annual covered salary. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Kane County School District's contributions to the Local Governmental Contributory Retirement System for the years ending June 30, 2005, 2004 and 2003 were \$5,489, \$4,087 and \$3,797, respectively; and for the Noncontributory Retirement System the contributions for June 30, 2005, 2004 and 2003 were \$540,246, \$472,170 and \$438,915, respectively. The contributions were equal to the required contributions for each year.

The School District also participates in the Utah Retirement System 401(k) plan. The School District funds 1.5% of eligible payroll costs. Vesting is immediate. The School District contributed \$91,104 in 2005 and employee contributions were \$159,846.

**KANE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 6. LONG-TERM OBLIGATIONS

The School District has the following long-term obligations at June 30, 2005.

The School District issued \$7,990,000 general obligation bonds dated May 1, 1999, for the purpose of constructing a new middle school and remodeling other schools. The bonds mature over a period of 15 years with final payment occurring June 15, 2014. The bonds expiring after June 15, 2008, were refunded in 2004. The School District issued \$4,665,000 general obligation refunding bonds in 2004 and placed \$4,698,178 in a refunding escrow to defease \$4,375,000 of the original general obligation bonds. This resulted in a realized loss on refunding of \$(323,178) and an economic gain of \$91,361. The present outstanding balance of the defeased bonds is \$4,375,000. The following is the debt service schedule for the remaining period of both bond issues:

1999 G.O. Bonds:

Year	Principal	Interest	Total	Interest Rate
2006	\$ 520,000	\$ 74,980	\$ 594,980	4.35%
2007	575,000	52,360	627,360	4.40%
2008	615,000	27,060	642,060	4.40%
	<u>\$ 1,710,000</u>	<u>\$ 154,400</u>	<u>\$ 1,864,400</u>	

2004 G.O. Refunding Bonds:

Year	Principal	Interest	Total	Interest Rate
2006	\$ 40,000	\$ 145,023	\$ 185,023	2.50%
2007	40,000	144,022	184,022	2.50%
2008	45,000	143,023	188,023	2.50%
2009	685,000	141,897	826,897	2.50%
2010	715,000	124,773	839,773	3.00%
2011	740,000	103,322	843,322	3.00%
2012	760,000	81,123	841,123	3.25%
2013	785,000	56,423	841,423	3.45%
2014	815,000	29,340	844,340	3.60%
	<u>\$ 4,625,000</u>	<u>\$ 968,946</u>	<u>\$ 5,593,946</u>	

KANE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 6. LONG-TERM OBLIGATIONS (Continued)

The remaining long-term debt consists of compensated absences in the amount of \$210,921.

The School District offers eligible employees a retirement stipend and insurance benefit. The insurance benefit is to provide health and accident insurance at a couple rate for a period up to five years. Once a retiree is eligible for Medicare part A, then the insurance benefit expires. The School District funds this benefit on a pay-as-you-go basis. During 2005, twelve individuals were participating at a cost of \$67,184. The School District has a potential liability for post-employment benefits for 16 eligible current employees and 12 retired employees. The School District has recorded a liability for this estimated amount calculated at the net present value of the estimated liability. The amount recorded in the financial statements for 2005 is \$1,440,530.

Transactions affecting long-term obligations are as follows:

	Bonds Payable	Leases Payable	Compensated Absences	Post Employment Benefits	Total
Governmental					
Balance, July 1	\$ 6,845,000	\$ 99,896	\$ 202,959	\$ 1,289,511	\$ 8,437,366
Additions	-	-	7,962	216,095	224,057
Retirements	(510,000)	(99,896)	-	(65,076)	(674,972)
Balance, June 30	<u>\$ 6,335,000</u>	<u>\$ -</u>	<u>\$ 210,921</u>	<u>\$ 1,440,530</u>	<u>\$ 7,986,451</u>
Due within 1 year	<u>\$ 560,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,896</u>	<u>\$ 659,896</u>

KANE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 7. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The following funds and/or departments had expenditures in excess of budget:

	Actual		Budget		Excess
Maintenance & Operation Fund:					
Support services - General					
Administration	\$ 385,619	\$	380,446	\$	5,173
Support services - Business	\$ 188,932	\$	185,316	\$	3,616

NOTE 8. CASH AND INVESTMENTS

The School District maintains a Deposit and Investment Pool that is available for use by all funds of the District. Each fund type's portion of this pool is disclosed on the combined balance sheet as "cash and cash equivalents".

Deposits

At June 30, 2005, the carrying amount of the School District deposits was \$137,732 and the bank balance was \$147,005. Of the bank balance, \$147,005 was covered by federal depository insurance. Deposits are not collateralized nor are they required to be by state statute. However, the State Commissioner of Financial Institutions monitors financial institutions and establishes limits for deposit of public money at individual financial institutions, and the School District follows these recommendations.

The School District follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953 Section 51, Chapter 7) in handling its depository and temporary investment transactions. This law requires the deposit of School District funds in a "qualified depository". The act defined a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Investments

At June 30, 2005, the School District's investment balances were as follows:

Investment Type	Fair Value	Maturity	Rating
Repurchase Agreement	\$ 734,829	Daily	N/A
Utah Public Treasurer's Investment Fund	2,510,103	N/A	Unrated
Total	<u>\$ 3,244,932</u>		

KANE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 8. CASH AND INVESTMENTS (Continued)

Interest Rate Risk. The School District has no policy regarding interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the School District invests in the Utah Public Treasurer's Investment Fund which is short term.

Credit Risk. The School District has no policy regarding credit risk. The investment in the Utah Public Treasurer's Investment Fund is unrated. These monies are invested primarily in money market securities.

Custodial Credit Risk. For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments that are in the possession of an outside party. The School District's \$734,829 investments in repurchase agreements are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department but not in the School District's name. The School District has no policy on custodial credit risk.

As reported in the financial statements:

Cash and cash equivalents	\$ 3,244,932
Restricted cash and cash equivalents	51,176
Fiduciary Funds - cash and cash equivalents	86,596
Component Unit - cash and cash equivalents	21,003
	<u>\$ 3,403,707</u>

The Utah Public Treasurer's Investment Fund (UPTIF) is an external deposit and investment pool wherein governmental entities are able to pool the monies from several entities to improve investment efficiency and yield. These monies are invested primarily in money market securities and contain no withdrawal restrictions. As such, the monies invested in this fund are not insured and are subject to the same market risks as any similar investment in money market funds. The Fund investments must comply with the provisions of the Utah Money Management Act. The Fund is not SEC registered and is unrated. The fair value of the School District's position in the fund is the same as the value of fund shares.

NOTE 9. RECONCILIATION OF INTERFUND BALANCES AND TRANSFERS

The following table provides a reconciliation of all interfund transfers:

Fund	Transfers in	Fund	Transfers out
School Food Service Fund	<u>\$ 45,000</u>	Maintenance & Operation Fund	<u>\$ 45,000</u>
	<u>\$ 45,000</u>		<u>\$ 45,000</u>

The transfer was made to alleviate operating deficits in the School Food Service Fund.

Short term interfund borrowings were necessary at year end to eliminate the deficit pooled cash balance in the Capital Projects Fund of \$750,000. The total of \$750,000 was borrowed from the Debt Service Fund and was re-paid at the beginning of the new fiscal year. The amounts are shown as Due to/from other funds in the governmental funds balance sheet. All interfund balances have been eliminated in the government-wide financial statement presentation of net assets.

**KANE COUNTY SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 10. MEMBERSHIP CHANGES

The School District receives funding from the Utah State Board of Education based on formulas calculated using the School District membership figures. As School District membership increases or decreases, corresponding funding from the Utah State Board of Education has the potential to increase or decrease. This could result in future funding decreases. The amount of any potential decrease in funding is not available.

OTHER SUPPLEMENTARY INFORMATION

KANE COUNTY SCHOOL DISTRICT
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 450,908	\$ 630,561	\$ 630,561	\$ -
Intergovernmental	-	-	-	-
Charges for services	-	-	-	-
Investment earnings	100	100	79	(21)
Grants, contributions and donations	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	451,008	630,661	630,640	(21)
EXPENDITURES				
Current:				
Debt Service:				
Principal	465,000	413,000	510,000	(97,000)
Interest and fiscal charges	286,030	343,710	240,907	102,803
Bond issuance costs	500	925	1,000	(75)
Total expenditures	751,530	757,635	751,907	5,728
Excess of revenues over expenditures	(300,522)	(126,974)	(121,267)	5,707
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Proceeds from bond refunding	-	-	-	-
Payments to refunding escrow	-	-	-	-
Total other financing sources and uses	-	-	-	-
Net change in fund balances	(300,522)	(126,974)	(121,267)	5,707
Fund balances - beginning	1,054,313	1,054,313	1,054,313	-
Fund balances - ending	\$ 753,791	\$ 927,339	\$ 933,046	\$ 5,707

The notes to the financial statements are an integral part of this statement.

KANE COUNTY SCHOOL DISTRICT
CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property taxes	\$ 654,330	\$ 914,544	\$ 914,543	\$ (1)
Intergovernmental		-	-	-
Charges for services	202,347	264,680	239,629	(25,051)
Investment earnings	15,000	40,000	38,809	(1,191)
Grants, contributions and donations	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>871,677</u>	<u>1,219,224</u>	<u>1,192,981</u>	<u>(26,243)</u>
EXPENDITURES				
Current:				
Instruction	99,091	150,474	128,782	21,692
Student services:				
Operation/maintenance of plant	159,800	429,107	430,682	(1,575)
Facilities acquisition/construction	1,215,997	1,391,517	860,296	531,221
Debt Service	-	111,555	100,323	11,232
Total expenditures	<u>1,474,888</u>	<u>2,082,653</u>	<u>1,520,083</u>	<u>562,570</u>
Excess of revenues over expenditures	<u>(603,211)</u>	<u>(863,429)</u>	<u>(327,102)</u>	<u>536,327</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Capital leases	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(603,211)</u>	<u>(863,429)</u>	<u>(327,102)</u>	<u>536,327</u>
Fund balances - beginning	<u>1,016,360</u>	<u>1,016,360</u>	<u>1,016,360</u>	<u>-</u>
Fund balances - ending	<u>\$ 413,149</u>	<u>\$ 152,931</u>	<u>\$ 689,258</u>	<u>\$ 536,327</u>

The notes to the financial statements are an integral part of this statement.

KANE COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Non K-12 Fund	School Food Service Fund	
ASSETS			
Cash and cash equivalents	\$ 137,187	\$ 3,789	\$ 140,976
Investments	-	-	-
Receivables (net of allowance for uncollectibles):			
Accounts	-	-	-
Taxes	-	-	-
Due from other governments	2,080	9,962	12,042
Inventory	-	11,218	11,218
Total assets	<u>\$ 139,267</u>	<u>\$ 24,969</u>	<u>\$ 164,236</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	\$ 583	\$ 346	\$ 929
Accrued payroll liabilities	4,894	-	4,894
Total liabilities	<u>5,477</u>	<u>346</u>	<u>5,823</u>
Fund balances			
Reserved for inventory	-	11,218	11,218
Unreserved			
Undesignated	133,790	13,405	147,195
Total fund balances	<u>133,790</u>	<u>24,623</u>	<u>158,413</u>
Total liabilities and fund balances	<u>\$ 139,267</u>	<u>\$ 24,969</u>	<u>\$ 164,236</u>

KANE COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Non K-12 Fund	School Food Services Fund	
REVENUES			
Lunch sales	\$ -	\$ 117,879	\$ 117,879
Charges for services	8,690	-	8,690
Intergovernmental	162,124	234,036	396,160
Investment earnings	-	-	-
Miscellaneous	-	-	-
Total revenues	170,814	351,915	522,729
EXPENDITURES			
Current:			
Instruction	151,242	-	151,242
Support services:	-	-	-
Students	12,371	-	12,371
Facilities acquisition/construction	39	-	39
School food services	-	390,236	390,236
Total expenditures	163,652	390,236	553,888
Excess (deficiency) of revenue over (under) expenditures	7,162	(38,321)	(31,159)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	45,000	45,000
Transfers out	-	-	-
Refunding bonds issued	-	-	-
Refunding bonds issuance costs	-	-	-
Advance refunding escrow	-	-	-
Sale of capital assets	-	-	-
Total other financing sources (uses)	-	45,000	45,000
Net change in fund balances	7,162	6,679	13,841
Fund balances-beginning	126,628	17,944	144,572
Fund balances-ending	<u>\$ 133,790</u>	<u>\$ 24,623</u>	<u>\$ 158,413</u>

KANE COUNTY SCHOOL DISTRICT
NON K-12 FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	154,460	166,238	162,124	(4,114)
Charges for services	3,150	8,340	8,690	350
Investment earnings	-	-	-	-
Grants, contributions and donations	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	<u>157,610</u>	<u>174,578</u>	<u>170,814</u>	<u>(3,764)</u>
EXPENDITURES				
Current:				
Instruction	120,869	167,841	151,242	16,599
Support services:				
Students	19,914	11,000	12,371	(1,371)
Facilities acquisition/construction	-	39	39	-
School food services	-	-	-	-
Total expenditures	<u>140,783</u>	<u>178,880</u>	<u>163,652</u>	<u>15,228</u>
Excess of revenues over expenditures	<u>16,827</u>	<u>(4,302)</u>	<u>7,162</u>	<u>11,464</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Capital leases	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>16,827</u>	<u>(4,302)</u>	<u>7,162</u>	<u>11,464</u>
Fund balances - beginning	<u>126,628</u>	<u>126,628</u>	<u>126,628</u>	<u>-</u>
Fund balances - ending	<u>\$ 143,455</u>	<u>\$ 122,326</u>	<u>\$ 133,790</u>	<u>\$ 11,464</u>

KANE COUNTY SCHOOL DISTRICT
SCHOOL FOOD SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Property taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	189,200	224,953	234,036	9,083
Charges for services-lunch sales	118,500	118,816	117,879	(937)
Investment earnings	-	-	-	-
Grants, contributions and donations	-	-	-	-
Miscellaneous	-	-	-	-
Total revenues	307,700	343,769	351,915	8,146
EXPENDITURES				
Current:				
Instruction	-	-	-	-
Support services:				
Students	-	-	-	-
School food services	362,090	397,090	390,236	6,854
Total expenditures	362,090	397,090	390,236	6,854
Excess of revenues over expenditures	(54,390)	(53,321)	(38,321)	15,000
OTHER FINANCING SOURCES (USES)				
Transfers in	40,000	45,000	45,000	-
Transfers out	-	-	-	-
Capital leases	-	-	-	-
Sale of capital assets	-	-	-	-
Total other financing sources and uses	40,000	45,000	45,000	-
Net change in fund balances	(14,390)	(8,321)	6,679	15,000
Fund balances - beginning	17,944	17,944	17,944	-
Fund balances - ending	\$ 3,554	\$ 9,623	\$ 24,623	\$ 15,000

KANE COUNTY SCHOOL DISTRICT
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2005

**KANE COUNTY SCHOOL DISTRICT
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2005**

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133 AND
AUDITORS' REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**The Honorable Board of Education
Kane County School District**

Compliance

We have audited the compliance of Kane County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Kane County School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kane County School District's management. Our responsibility is to express an opinion on Kane County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kane County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Kane County School District's compliance with those requirements.

In our opinion, Kane County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Kane County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Kane County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Kane County School District as of and for the year ended June 30, 2005, and have issued our report thereon dated August 5, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Kane County School District's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of Kane County School District, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wiggins & Co., PC
August 5, 2005

KANE COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor/Grantor Pass Through/Grantor Program Title	Federal CFDA Number	Pass-through Entity Number	Federal Award Expended	Major Program
U.S. Department of Agriculture:				
Passed through Utah State Office of Education:				
Food Distribution (Commodities)	10.550	N/A	\$ 21,588	X
School Breakfast Program	10.553	39	32,670	X
National School Lunch Program:				
Section 4	10.555	42/43	25,789	X
Section 11	10.555	42/43	130,441	X
Passed through Kane County:				
Forest Reserve	10.666	N/A	<u>18,371</u>	
Total U.S. Department of Agriculture			<u>228,859</u>	
U.S. Department of Education:				
Passed through Utah State Office of Education:				
Adult Education Act	84.002	33	1,855	
Title I-Grants to Local Educational Agencies	84.010A	08	195,461	
Special Education	84.027A	19	244,965	
Vocational Education-Basic Grants to States	84.048A	20/21	24,453	
Special Education-Preschool Grants	84.173A	52	20,985	
Drug Free Schools	84.186A	9	7,694	
Tech-Literacy Challenge	84.318X	7	6,359	
Improving Teacher Quality State Grants	84.367	74	81,110	
English Language Acquisition	84.365A	73	2,375	
Federal, State and Local Partnerships for Educational Improvement Title VI	84.298A	90/91	<u>14,795</u>	
Total U.S. Department of Education			<u>600,052</u>	
Total Expenditures of Federal Awards			<u>\$ 828,911</u>	

See Accompanying Notes.

**KANE COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 1. PURPOSE OF THE SCHEDULE

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is a supplementary schedule of Kane County School District's basic financial statements and is presented for purposes of additional analysis. Because the Schedule presents only a select portion of the activities of Kane County School District, it is not intended to and does not present either the financial position, changes in fund balances or the revenues or expenditures of Kane County School District.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

- A. **Basis of Presentation** - The information in the Schedule is presented in accordance with OMB Circular A-133.

Federal Financial Assistance - Pursuant to OMB Circular A-133, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, nonmonetary federal awards, including federal surplus property, is included in federal awards and, therefore, is reported on the Schedule. Federal awards do not include direct federal cash assistance to individuals. Solicited contracts between the State and Federal Government for which the Federal Government procures tangible goods or services are not considered to be federal awards.

Major and Nonmajor Programs - OMB Circular A-133 establishes the levels of expenditures or expenses to be used in defining major and nonmajor federal awards programs.

- B. **Reporting Entity** - The reporting entity is fully described in the footnotes of the Kane County School District's financial statements. The schedule includes all federal awards programs administered by the Kane County School District for the year ended June 30, 2005.

**KANE COUNTY SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- C. **Basis of Accounting** - The expenditures in the Schedule are recognized as incurred based on the modified accrual basis of accounting and the cost accounting principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Costs - The schedule includes a portion of costs associated with general School District's activities which are allocated to federal awards under negotiated formulas commonly referred to as indirect cost rates.

Matching Costs - The Schedule does not include matching expenditures.

Nonmonetary Assistance - The District received nonmonetary assistance during the fiscal year in the means of federal food distribution (commodities).

KANE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified

not considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial statements noted?

_____ yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified

not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)?

_____ yes X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

10.550

Food Distribution (Commodities)

10.553

School Breakfast Program

10.555

National School Lunch Program Section 4 & 11

Dollar threshold used to distinguish
between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

X yes _____ no

KANE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2005

Section II - Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*.

There were no reportable conditions or material weaknesses noted during our audit. Accordingly, no such matters are reported.

Section III - Federal Awards

There were no findings related to this section. Accordingly, nothing is reported in this section.

KANE COUNTY SCHOOL DISTRICT
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2005

**KANE COUNTY SCHOOL DISTRICT
MANAGEMENT REPORT
FOR THE YEAR ENDED JUNE 30, 2005**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Board of Education
Kane County School District

We have audited the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Kane County School District, as of and for the year ended June 30, 2005, which collectively comprise Kane County School District's basic financial statements and have issued our report thereon dated August 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kane County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Kane County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of Kane County School District in the accompanying Schedule of Findings, Recommendations, and Responses.

This report is intended solely for the information of the management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Wiggins & Co., PC

Brigham City, Utah
August 5, 2005

**INDEPENDENT AUDITORS' REPORT
ON STATE OF UTAH LEGAL COMPLIANCE**

**To the Honorable Board of Education
Kane County School District**

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Kane County School District for the year ended June 30, 2005, and have issued our report thereon dated August 5, 2005. As part of our audit, we have audited Kane County School District's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State Assistance Programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The District received the following major State Assistance Programs from the State of Utah:

**Minimum School Program (State Office of Education)
School Lunch (State Office of Education)**

The District also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the District's financial statements.)

Drivers Education (State Office of Education).

Our audit also included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

**Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Truth in Taxation and Property Tax Limitations
Other General Issues**

The management of Kane County School District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings, Recommendations and Responses. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Kane County School District, complied in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State Assistance Programs for the year ended June 30, 2005.

Wiggins + Co., PC

Brigham City, Utah
August 5, 2005

**KANE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2005**

STATE LEGAL COMPLIANCE ITEMS

05-1 CASH MANAGEMENT

Finding:

Utah Code 51-4-2(2) states that all public funds shall be deposited daily, whenever practicable, but not later than three business days after receipt. We noted instances, at a few schools, where this requirement was not met.

Recommendation:

We recommend that deposits be made in compliance with State statutes. This is a continuing finding. The District administrative personnel need to emphasize the necessity of complying with this requirement to school personnel and then take steps to monitor the cash management procedures at the schools. Compliance with this requirement insures accountability, improves earnings and safeguards financial assets.

Response:

The District Business Manager will take steps to insure that timely deposits are made.

OTHER CONTROL ITEMS

05-2 CASH

Finding:

We noted that the bank reconciliations are prepared monthly and balanced to the activity that is posted to the general ledger; however, a reconciliation of the cash by fund is not performed monthly.

Recommendation:

We recommend that a proof of cash which reconciles the book balances to the bank and book activity be prepared every month. This insures accountability and safeguards financial assets.

Response:

The Business Manager will add an additional step to the normal monthly reconciliation to balance cash by fund.

**KANE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2005**

OTHER CONTROL ITEMS

05-2 CASH (Continued)

Finding:

We noted that the bank confirmation for one of the outlying schools was returned because no one from the District office was a signatory on the account. We also noted that there was a debit card issued on a school activity account.

Recommendation:

We recommend that the Superintendent or the Business Manager be a signatory on all bank accounts of the School District. This would enhance the controls on the accounts and make sure that internal checks can be conducted. All debit cards should be destroyed immediately.

Response:

All debit cards will be destroyed and the Business Manager will be added as a signature on all school bank accounts.

Finding:

In our review of the accounting at the various schools, we noted that the District required each school to convert, for consistency, to a common software package. However, since the conversion process, some schools still are not providing the complete reporting package to the District on a monthly basis. Some schools are having difficulty keeping the funds in balance and may require additional training.

Recommendation:

We recommend that the District provide District-wide training for all the staff involved in the school accounting. We also recommend that the District monitor the information that comes in from the schools to ensure that all information is balanced and complete.

Response:

The District will provide training and will monitor monthly financial reports.

Finding:

We noted that the District waits until year end to submit reimbursement claims on a few state or federally funded programs. These programs allow the District to submit these claims throughout the year, as long as the reimbursement requests agree with District records and do not exceed the approved budgets.

**KANE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2005**

OTHER CONTROL ITEMS

05-2 CASH (Continued)

Recommendation:

We recommend that the Business Manager submit these claims during the year to reimburse the District for funds that have been spent to operate these programs. This will enhance the cash management process and allow the District to invest the funds sooner.

Response:

The Business Manager will submit several claims during the year.

05-3 PROPERTY, PLANT AND EQUIPMENT

Finding:

While testing property, plant and equipment additions, we noted that many items are not being picked up through the year.

Recommendation:

We recommend that at least quarterly throughout the year, the listings that are being prepared be compared to the capital general ledger accounts to sure that all additions are listed.

Response:

Kane District will comply with the auditors' recommendation.

Finding:

Also while testing property, plant and equipment, we noted that the schools are not completing the "Form for Disposal of Fixed Assets." In most cases, they are just crossing through items on a prior year listing with no explanation of where these items went, whether they were sold or junked, or who approved the disposal. Upon further investigation by District staff, there were a few newer items that were actually still present and in use and had been crossed off the list in error.

**KANE COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS, RECOMMENDATIONS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2005**

OTHER CONTROL ITEMS

05-3 PROPERTY, PLANT AND EQUIPMENT (Continued)

Recommendation:

We recommend that care be taken when the schools are asked to verify their equipment lists. If items are deleted, they should have the appropriate forms completed to accompany the report.

Response:

The District will take steps to insure that disposal forms are properly completed.

**KANE COUNTY SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

STATE LEGAL COMPLIANCE ITEMS

04-1 CASH MANAGEMENT

Finding:

Utah Code 51-4-2(2) states that all public funds shall be deposited daily, whenever practicable, but not later than three business days after receipt. We noted instances, at a few schools, where this requirement was not met.

Recommendation:

We recommended that deposits be made in compliance with State statutes. This is a continuing finding. The District administrative personnel need to emphasize the necessity of complying with this requirement to school personnel and then take steps to monitor the cash management procedures at the schools. Compliance with this requirement insures accountability, improves earnings and safeguards financial assets.

Status:

See current year findings.

OTHER CONTROL ITEMS

04-2 PROPERTY, PLANT AND EQUIPMENT

Finding:

While testing property, plant and equipment records, we found that there is no formal policy or procedure for retiring fixed assets from the records.

Recommendation:

We recommended that the District adopt formal policies and procedures related to the disposition of fixed assets. Such policies and procedures should include consideration of centralizing the process so that all surplus items are treated in the same manner and disposition records are consistent, accurate and complete. Such policies could include the development of a standardized form requiring information relating: description of the asset, date of disposal, reason for disposal, asset number, if applicable; signature of the person initiating the disposal, proceeds, if any; and the approval signature of the responsible District administrator. This information should then be sent to the District office so that accumulation of data could be kept in a centralized location and monitored by District administrative personnel.

Status:

See current year findings.

**KANE COUNTY SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

04-3

SCHOOL ACCOUNTING

Finding:

In our review of the accounting at the various schools, we noted that the District required each school to convert, for consistency, to a common software package. However, since the conversion process, most schools have failed to submit, to the District office, as required by District policy, the information necessary to perform adequate monitoring procedures. In addition to some standard reports, the submissions to the District office should include a copy of the bank statement and detail reconciliation, a copy of the profit and loss detail, a copy of "Total account balances by Classes" report, and a copy of the general ledger. These documents should be submitted and reviewed by District administrative personnel monthly.

Recommendation:

We recommended that the District re-emphasize this policy to the school accounting staff and that the reports necessary for adequate monitoring be submitted, as required. We also recommended that the District administrative staff consider performing periodic on-site internal reviews, at selected schools, to enhance monitoring procedures. Such visits could include review procedures such as checking for negative activity balances, inspecting supporting documentation, compliance with cash management requirements and evaluating account and bank reconciliation procedures. This would enhance the internal control process.

Status:

See current year findings.

04-4

CASH MANAGEMENT

Finding:

We noted that the District waits until year end to submit reimbursement claims on a few state or federally funded programs. These programs allow the District to submit these claims throughout the year, as long as the reimbursement requests agree with District records and do not exceed the approved budgets.

Recommendation:

We recommended that the District submit these claims during the year to reimburse the District for funds that have been spent to operate these programs. This will enhance the cash management process and allow the District to invest the funds sooner.

Status:

See current year findings.

KANE COUNTY SCHOOL DISTRICT

AGREED-UPON PROCEDURES

JUNE 30, 2005

3. For diplomas:

Number of sample items: 3

For each selected enrollee, we verified that the diploma was properly awarded by the appropriate reporting on the student's transcripts.

We matched the total number of diplomas on the student accounting system to the URAED report.

We found no exceptions as a result of the procedures.

4. For GEDS:

Number of sample items: 2

For each selected enrollee, we verified that the GED was properly awarded by the appropriate reporting on the student's transcript.

We matched the total number of GEDs on the student accounting system to the URAED report.

We found no exceptions as a result of the procedure.

5. For Level Gains:

Number of sample items: 3

For each selected enrollee, we verified that the level gain was properly awarded by verifying the acquisition of the level gain as noted on the student accounting system.

We matched the total number of level gains on the student accounting system to the URAED report.

We found no exceptions as a result of the procedure.

6. For Credits Earned:

Number of sample items: 10.46

For each selected enrollee, we verified that the credit hour was properly awarded by the reporting on the student's transcript.

We matched the number of credit hours on the student accounting system to the URAED report.

We found no exceptions as a result of the procedure.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on the accompanying Utah Report of Adult Education Data of the School District. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Utah State Office of Education and management of the District and those specifically required by the filing and distribution requirements of the Utah State Office of Education and is not intended to be and should not be used by anyone other than these specified parties.

Wiggins & Co., PC
August 5, 2005

**KANE COUNTY SCHOOL DISTRICT
ADULT EDUCATION SUMMARY REPORT
FOR THE YEAR ENDED JUNE 30, 2005**

1.	Total Number of Enrollees	25
2.	Participation (Contact Hours)	929.26
3.	Total Number of Diplomas	11
4.	Total Number of GEDs	2
5.	Level Gains Completed	7
6.	Total Credits Earned	87.14